

# Crowd Out of Private Insurance

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BadgerCare Plus Advisors Meeting  
May 5, 2006



*Health insurance for all kids*



# OVERVIEW

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- Traditionally, crowd out refers to substitution of private insurance into public.
- Three major crowd out pathways:
  - an individual drops private coverage for public coverage
  - an enrollee in a public program refuses an offer of private coverage
  - employers force or encourage employees to drop their coverage in favor of public programs
- Other important factors:
  - business cycles
  - affordability of health insurance premiums
  - importance of having health insurance
  - generous benefit package

# STUDIES AND FINDINGS: NO SINGLE ANSWER

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- 1<sup>st</sup> major study - Cutler and Gruber "Does Public Insurance Crowd Out Private Insurance?"
  - longitudinal data from 1988 to 1993
  - 3 definitions, 3 estimates
    - (a) decrease in private coverage/newly eligible population = 50% crowd out
    - (b) decrease in private coverage/total Medicaid enrollment = 22% crowd out
    - (c) decrease in private coverage over time attributed to Medicaid = 15% crowd out
- A recent study replicated Cutler's research using cross sectional data over the same period of time and found no crowd out, but statistically significant take up rates.

# STUDIES AND FINDINGS (cont.)

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- Firm level response study
  - No evidence of employers dropping coverage due to Medicaid expansion
  - Higher probability dependent coverage could be dropped
- State comparison studies:
  - 1) Minnesota, Washington, Oregon, Tennessee
    - Public coverage reduced number of uninsured for families with income below 100% FPL;
    - Some crowd out in families with income between 100%-200%FPL.

# STUDIES AND FINDINGS (cont.)

## 2) California, Massachusetts, New Jersey, Wisconsin

- 1997-2002
- Eligibility ranged from 14% (MA) to 24% (WI)
- In all 4 states, public coverage rates increased
- Number of uninsured fell only in WI and MA
- Little or no change in private coverage due to expansion in WI and MA;
- Strong evidence of crowd out in NJ (59-95%);
- Mixed results in CA
- No evidence of stigma (= rebranding program names)



# STUDIES AND FINDINGS (cont.)

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- Variance in results:
  - Benefits and costs of private coverage vs. public programs
  - Amount of outreach
  - Initial eligibility population
  - Policies beyond program eligibility: premium assistance in MA, no waiting periods for parents coming from non-group or COBRA coverage in NJ.



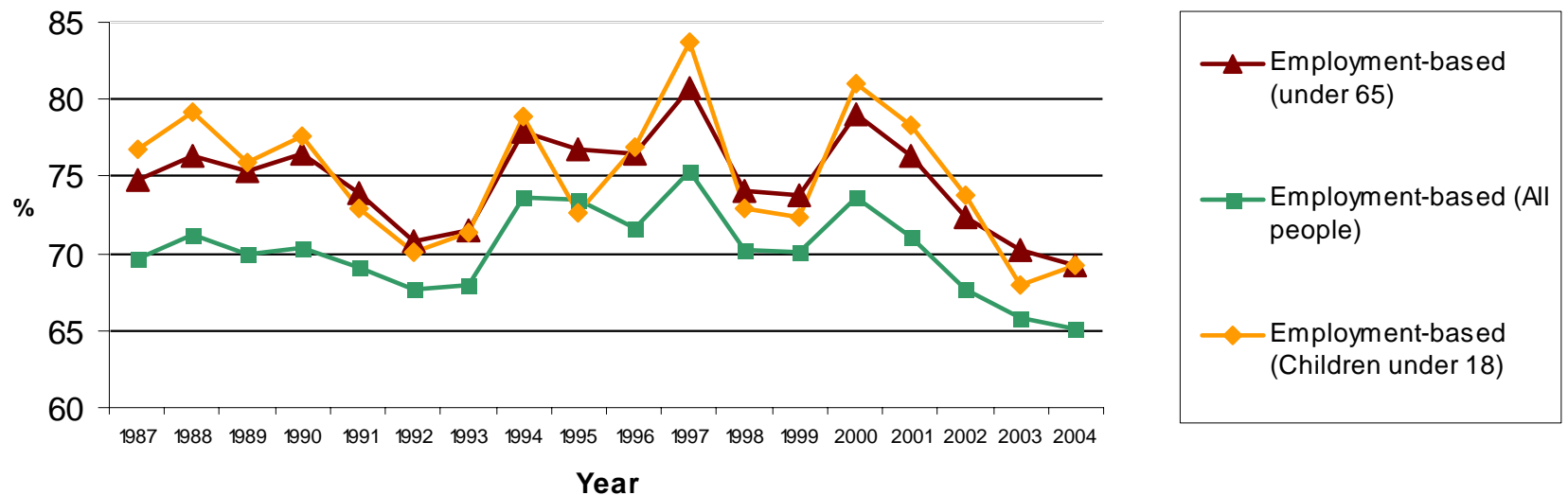
# DYNAMICS OF CROWD OUT

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- Eligibility rules and outreach
- State of economy
- Employers decision to drop coverage completely or only for dependents
- Allow whole families to enroll in public programs
- Generous benefit package

# EMPLOYMENT BASED INSURANCE IN WISCONSIN

## Employment Based Insurance, 1987-2004





# POLICIES IN OTHER STATES

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## Illinois "All Kids"

- \* 6 month waiting period
- \* Premiums based on income
- \* Broad awareness would help to enroll people in Medicaid and SCHIP program

## Texas

- \* 3 month waiting period
- \* Co-payments (1.25% - 2.5% of family's gross income)
- \* Monitoring

## Minnesota

- \* Ineligible if insured 4 months prior application or employer pays at least 50% of the premium or employer dropped coverage in previous 18 months

## Washington

- \* No explicit restrictions
- \* 3 month pre-existing condition exclusion

# POLICIES IN OTHER STATES (cont.)

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## Premium Assistance Programs

### Maryland:

- \* Employers pay at least 50% of family coverage
- \* Individuals who are covered or voluntarily refused/terminated empl. sponsored coverage are ineligible

### Massachusetts:

- \* Employers pay at least 50% of coverage

### Virginia:

- \* Employers pay at least 40% of coverage cost
- \* Children must be uninsured for at least 6 months



# TRADE-OFFS TO CONSIDER

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- What taxpayers can afford
- Crowd out raises cost of expanded coverage
- Monitoring crowd out provides imprecise information
- Attempts to reduce crowd out can limit participation by other groups
- People who shift to public programs may obtain better benefits
- Targeting/outreach



# MECHANISMS TO PREVENT CROWD OUT

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- **Direct strategies to motivate enrollee and employer behavior:**
  - Periods of uninsurance (waiting periods)
  - Look back periods
  - Cost Sharing
  - Contribution levels for employers
  - State “antidumping” laws
  - Tax credits
- **Indirect strategies to keep private insurance:**
  - Monitoring insurance status of applicants
  - Verifying data against private insurance databases
  - Employer questionnaires



# EFFECTIVE POLICY = A MIX OF STRATEGIES

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- Research shows that no strategy alone is effective.
- Find right balance between increased participation while avoiding crowd out
- Design of policies depends on the BadgerCarePlus goals
  - cover uninsured people
  - minimize state costs
  - keep people in private insurance
  - all of the above?